

Chapter 2 Direction of Japan's trade policy (21st century-style trade policy)

Section 1 Trend in Japan's current account balance and implications

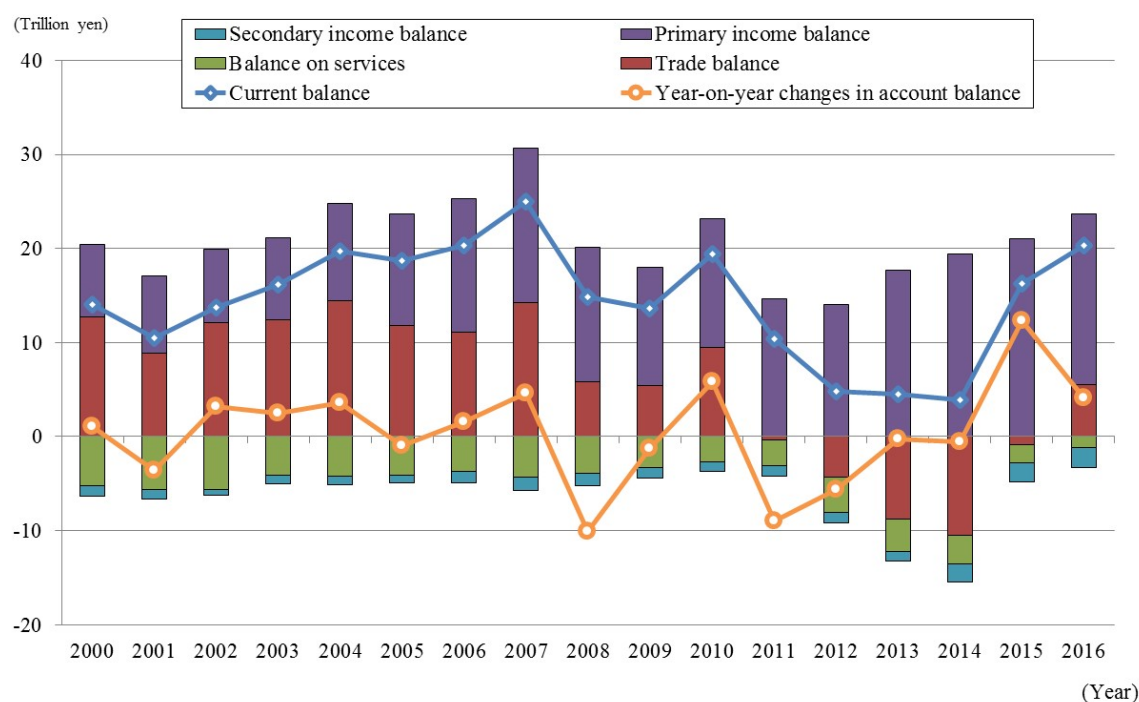
This section provides an overview of the trend in Japan's current account balance. At the same time, it makes clear the notable features of Japan's current account balance through comparison with the current account balance structures of other major advanced countries.

1. Trend in Japan's current account balance

(1) Japan's current account balance in 2016

In 2016, Japan recorded a current account surplus of 20,342.1 billion yen, representing an increase of 4,107 billion yen from the previous year and the second consecutive annual rise. The current account surplus in the year was the second largest, after the surplus in 2007, since 1985, the earliest year for which comparable statistics are available. The main factor of the surplus growth is a trade surplus of 5,525.1 billion yen, which represented an improvement of 6,411.3 billion yen and the first surplus since 2011, when the Great East Japan Earthquake occurred. In addition, the services account deficit decreased by 7,82.7 billion yen from the previous year to 1,148 billion yen for the fourth consecutive annual decline. The services account deficit was the smallest since 1996, the earliest year for which comparable statistics are available. The primary income surplus decreased 2,917.7 billion yen from the previous year to 18,101.1 billion yen, marking the first decline in four years (Figure II-2-1-1-1).

Figure II-2-1-1-1 Changes in account balance in Japan



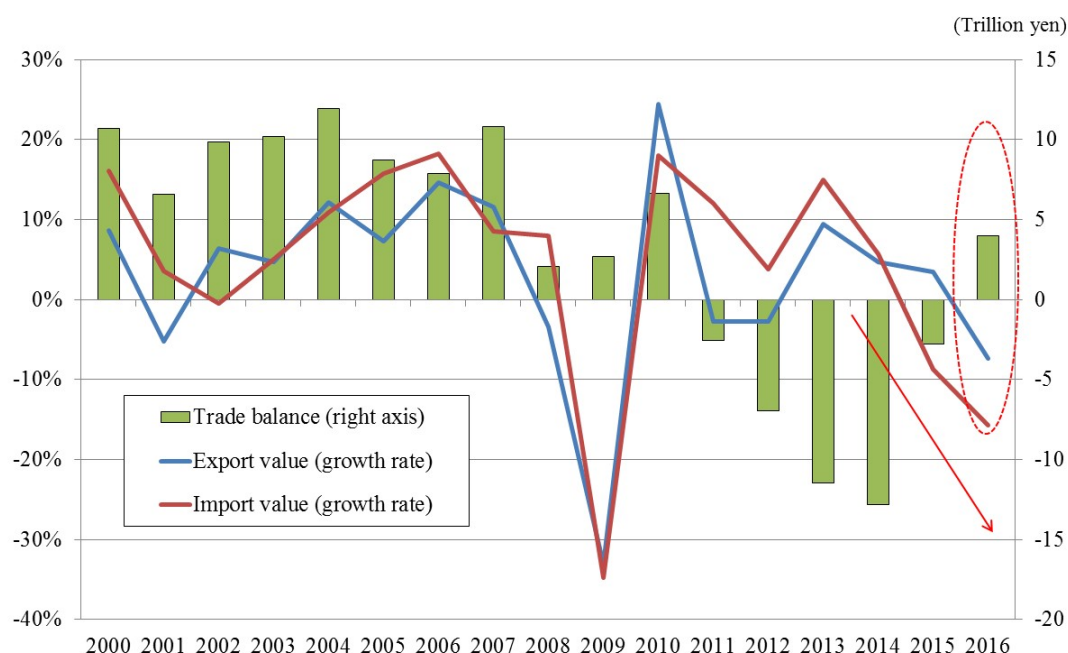
Notes: Figures before 2013 are the results of reclassifying the statistical data based on the BPM5 into

those based on the BPM6

Source: "Balance of Payments" (Ministry of Finance)

As for the trade balance in 2016 on a customs clearance basis, the value of exports declined 7.4% to 70,035.8 billion yen, while the value of imports dropped 15.8% to 66,042.0 billion. This means that the shift in the trade balance to a surplus in 2016 was not driven by exports but was due to the decline in imports (Figure II-2-1-1-2).

Figure II-2-1-1-2 Changes in growth rates of import/export value in Japan



Notes: The growth rates are year-on-year rates.

Source: "Trade Statistics of Japan" (Ministry of Finance)

Here, we look at the breakdown of the import value, which dropped steeply, by product item. Of the decline of 15.77% in the value of imports, around half, 7.86%, is attributable to mineral fuels (Table II-2-1-1-3). One of the factors behind this is a decline in crude oil prices worldwide between 2014 and 2016. Over this period, the WTI crude oil future price dropped steeply, by 68.1% (Figure II-2-1-1-4). Affected by the crude oil price drop, the import prices of crude and raw oil in Japan also dropped steeply, so the value of imports fell 32.4% although the volume of imports remained little changed. Another factor that reduced the overall value of imports is year-on-year drops in the value of imports of all items, including electrical machinery (negative contribution of 1.56%), such as semiconductors and other electronic products, and apparel and other products (negative contribution of 1.46%), declined from the previous year (Figure II-2-1-1-5).

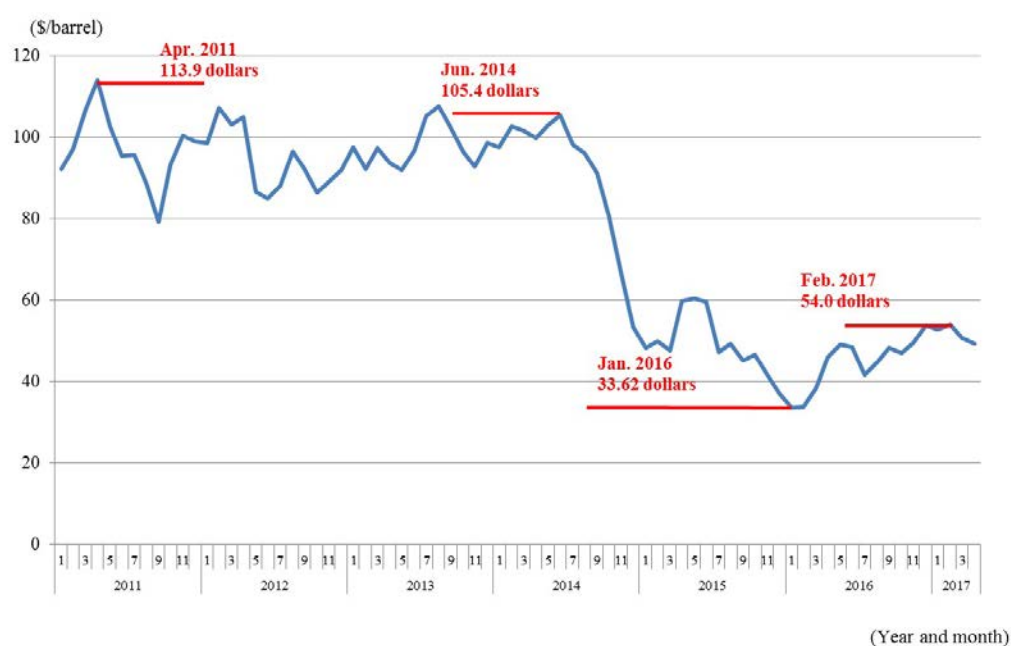
Table II-2-1-1-3 Contribution levels of import/export value by product item in Japan (2015-2016)

	Export value	Import value
1. Foodstuff	0.01%	-0.82%
2. Raw materials	-0.25%	-1.07%
3. Mineral fuels	-0.46%	-7.86%
4. Chemical products	-0.84%	-0.81%
5. Products by material	-1.82%	-1.24%
6. General machinery	-1.07%	-0.91%
7. Electrical equipment	-1.28%	-1.56%
8. Transportation equipment	-1.06%	-0.04%
9. Others	-0.61%	-1.46%
Total	-7.38%	-15.77%

Note 1: These growth rates are year-on-year rates.

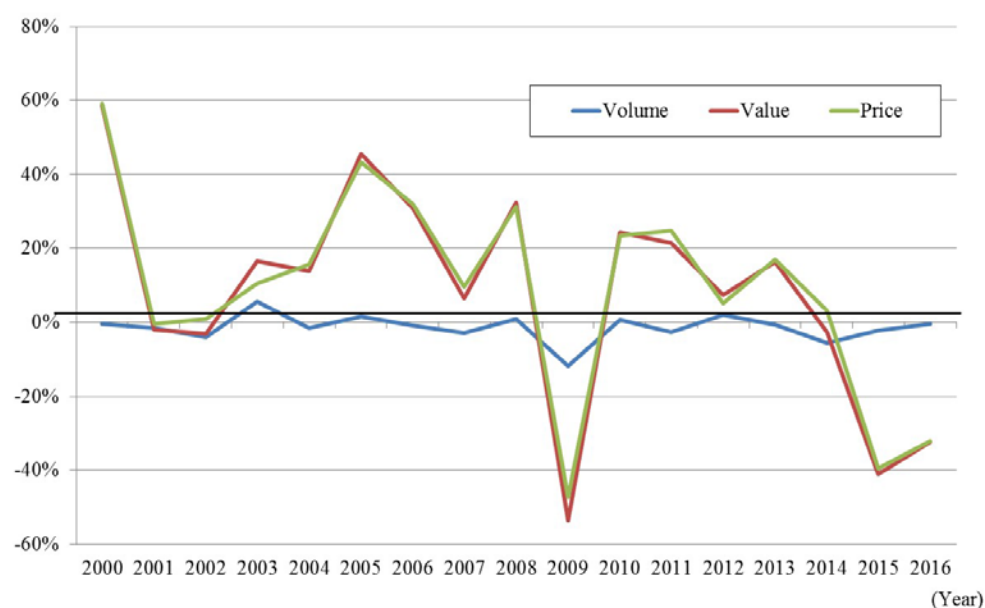
Source: "Trade Statistics of Japan" (Ministry of Finance)

Figure II-2-1-1-4 Changes in WTI crude oil future prices



Source: Thomson Reuters EIKON.

Figure II-2-1-1-5 Changes in growth rates of import prices of crude and raw oil



Note: These growth rates are year-on-year rates.

Source: "Trade Statistics of Japan" (Ministry of Finance)

On the other hand, the value of exports declined 7.38% from the previous year. In particular, the negative contributions of manufactured products classified by raw material (negative contribution of 1.82%) and electrical machinery (negative contribution of 1.28%) pushed down the value of exports. Although the export value declined from the previous year for most products, foods made a positive contribution of 0.01%, becoming the only positively contributing item. In particular, exports to Asian NIEs and China increased, reflecting a gradual rise in demand in Asia for Japanese foods (Table II-2-1-1-6).

Among the factors that contributed to the decline in the services account deficit are the second consecutive growth in surpluses in the travel and financial services balances and a decrease of 681.6 billion yen in the deficit in the other business services balance to 2,576.4 billion yen (Figure II-2-1-1-7).

Table II-2-1-1-6 Contribution level of item-based export value by major country and region in Japan (2015-2016)

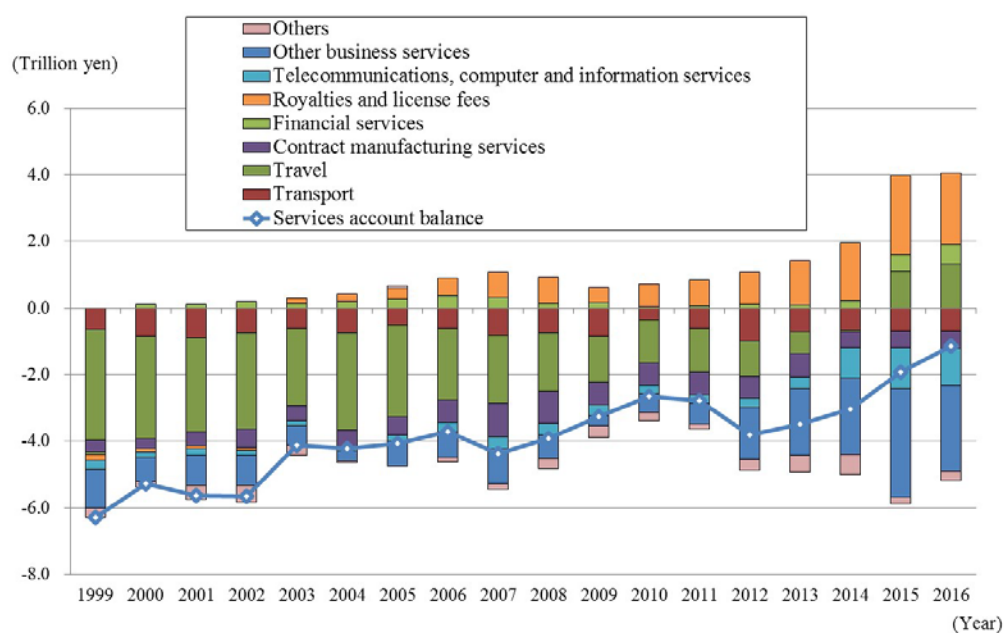
Contributions								
	Asia	China	AsiaNIE s	ASEAN	EU	US	Other	Worldwide
1. Foodstuff	0.01%	0.01%	0.02%	-0.01%	0.00%	-0.00%	0.00%	0.01%
2. Raw materials	-0.20%	-0.11%	-0.05%	-0.03%	-0.00%	-0.02%	-0.03%	-0.25%
3. Mineral fuels	-0.30%	0.01%	-0.32%	-0.15%	-0.00%	-0.03%	-0.14%	-0.46%
4. Chemical products	-0.60%	-0.19%	-0.33%	-0.09%	-0.07%	-0.09%	-0.08%	-0.84%
5. Products by material	-1.13%	-0.24%	-0.42%	-0.37%	-0.08%	-0.24%	-0.36%	-1.82%
6. General machinery	-0.29%	-0.02%	0.10%	-0.42%	-0.15%	-0.41%	-0.22%	-1.07%
7. Electrical equipment	-0.84%	-0.29%	-0.43%	-0.21%	-0.10%	-0.25%	-0.08%	-1.28%
8. Transportation equipment	-0.20%	0.08%	-0.13%	-0.13%	0.23%	-0.13%	-0.96%	-1.06%
9. Others	-0.72%	-0.38%	-0.21%	-0.06%	0.18%	-0.26%	0.18%	-0.61%
Total	-4.26%	-1.14%	-1.78%	-1.48%	-0.00%	-1.43%	-1.68%	-7.38%

Note 1: These growth rates are year-on-year rates.

2. Singapore is a member country of both the Asian NIEs and the ASEAN.

Source: "Trade Statistics of Japan" (Ministry of Finance)

Figure II-2-1-1-7 Changes in services account balance by product item (Japan)

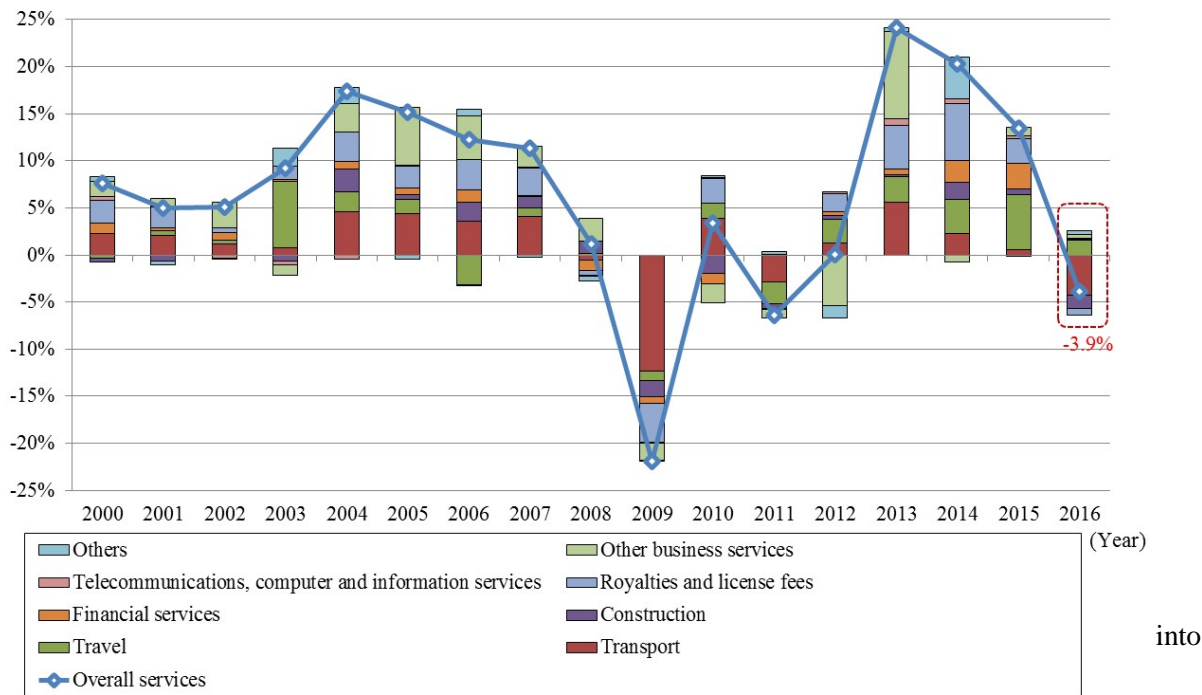


Notes: Figures before 2013 are the results of reclassifying the statistical data based on the BPM5 into

those based on the BPM6.
 Source: "Balance of Payments" (Ministry of Finance)

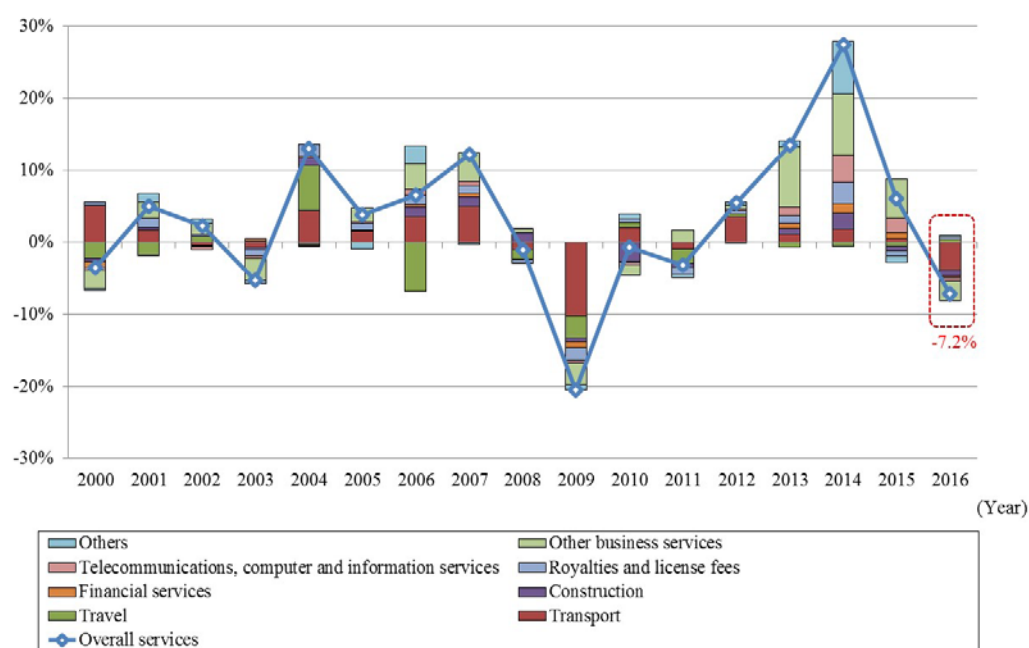
Although the deficit in the overall services account balance declined, overall receipts dropped 3.9% from the previous year, the first decrease in four years. Meanwhile, overall payments also declined 7.2% for the first drop in four years. Like in the case of the trade balance, the deficit in the services account balance decreased because outflow (payments) from Japan decreased more than inflow (receipts). By product item, overall service receipts declined 3.9%, while the travel service receipts made a positive contribution of 1.6%. Travel service receipts grew for the fifth straight year, making the greatest contribution to curbing the decline in overall receipts, although the rate of growth slowed down from the previous year (Figure II-2-1-1-8). Regarding payments, which dropped 7.2% from the previous year, other business service payments made a negative contribution of 2.8%, representing the first negative contribution in five years. Transport services recorded the largest decline in both receipts and payments (decline of 4.3% in receipts and 3.9% in payments), and the abovementioned decline in the value of Japan’s trade in 2016 is considered to be a factor contributing to the decline in transport service receipts and payments (Figure II-2-1-1-9).

Figure II-2-1-1-8 Changes in contribution level of growth rates regarding services account balance receipts by product item in Japan



Source: "Balance of Payments" (Ministry of Finance)

Figure II-2-1-1-9 Changes in contribution level of growth rates regarding services account balance payments by product item in Japan

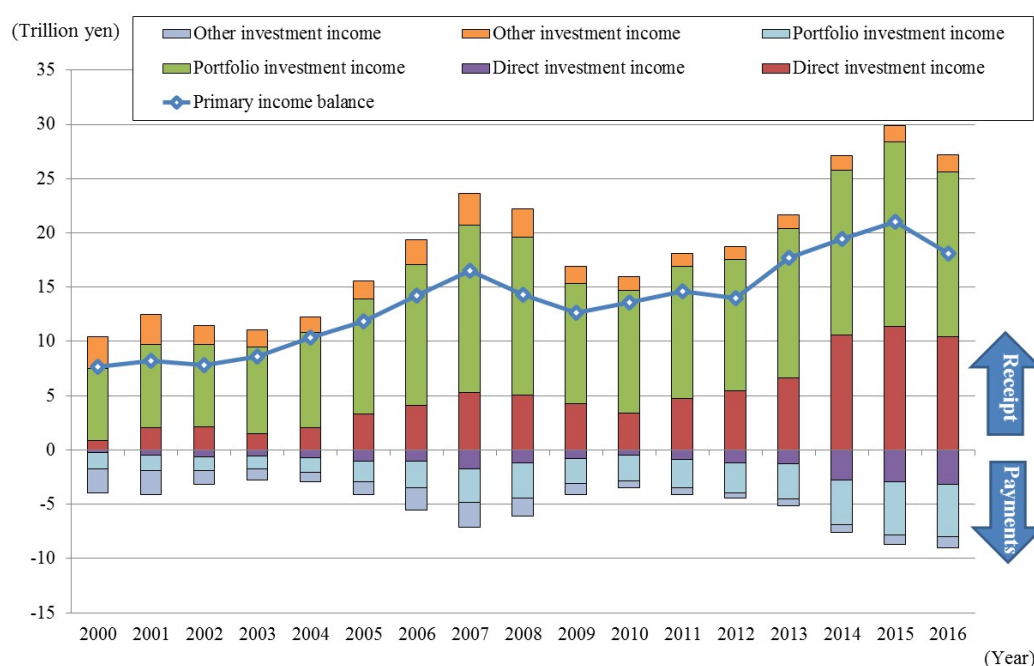


Notes: Figures before 2013 are the results of reclassifying the statistical data based on the BPM5 into those based on the BPM6.

Source: "Balance of Payments" (Ministry of Finance)

In 2016, the surplus in the primary income balance declined for the first time in four years due to a decline in overall receipts. Among factors behind the reduction of the surplus is a drop in the yen value of foreign-currency-denominated receipts due to the yen's appreciation in the exchange market in 2016 compared with the previous year (Figure II-2-1-1-10).

Figure II-2-1-1-10 Changes in surplus in the primary income balance by product item in Japan



Notes:

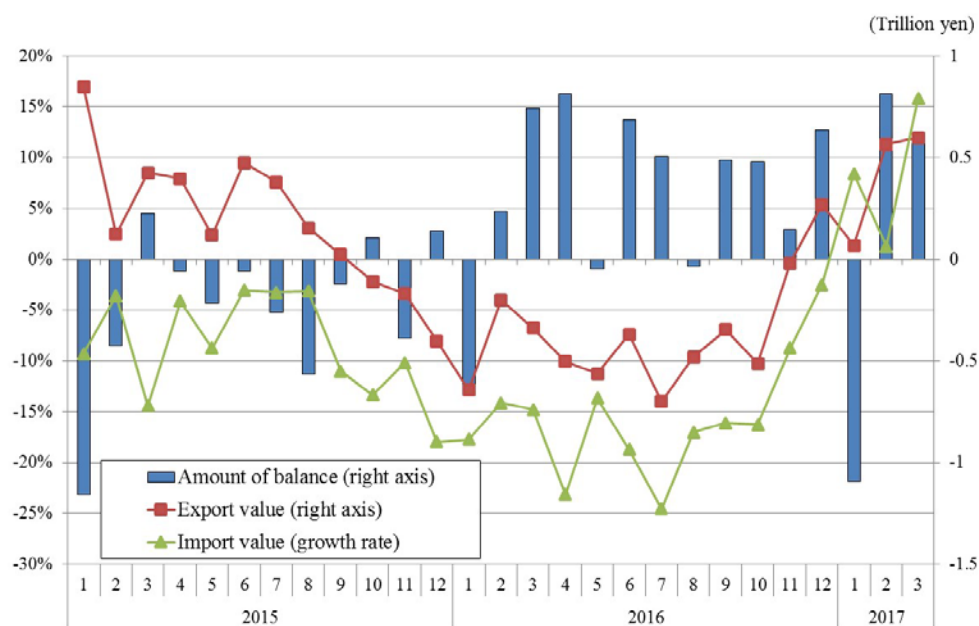
- 1: The figures exclude the income of employees for its small scale and the total. Accordingly, the sum of the figures is not equal to the total values.
- 2: Figures before 2013 are the results of reclassifying the statistical data based on the BPM5 into those based on the BPM6.

Source: "Balance of Payments" (Ministry of Finance)

(2) Current and future trends in the trade balance

Next, we will provide an overview of the current and future trends in Japan's trade balance. In 2016, the trade surplus grew due to a decline in the value of imports caused by resource price drops and other factors. However, from around August 2016, the margin of decline in the value of imports and exports started to narrow, and positive growth resumed for the value of exports in December 2016 and for the value of imports in January 2017. The value of exports has steadily recovered since then, and in March 2017, it came to 7,165.9 billion yen, up 13.1% year on year (Figure II-2-1-1-11).

Figure II-2-1-1-11 Year-on-year changes in trade balance and import/export value in Japan



Source: "Balance of Payments" (Ministry of Finance)

On a customs clearance basis, the overall value of exports in the first quarter of 2017 grew 8.51% from the first quarter of 2016. By product item, general machinery made a positive contribution of 2.39%, with exports of this item to Asia NIEs in particular making a positive contribution of 1.14%. Regarding the value of exports of all items, including general machinery, the value of exports to emerging countries in Asia, including Asian NIEs, China, and ASEAN countries, is recovering (Table II-2-1-1-12).

Table II-2-1-1-12 Contribution level of import value by major country/region and by product item in Japan (first quarter in 2016 to first quarter in 2017)

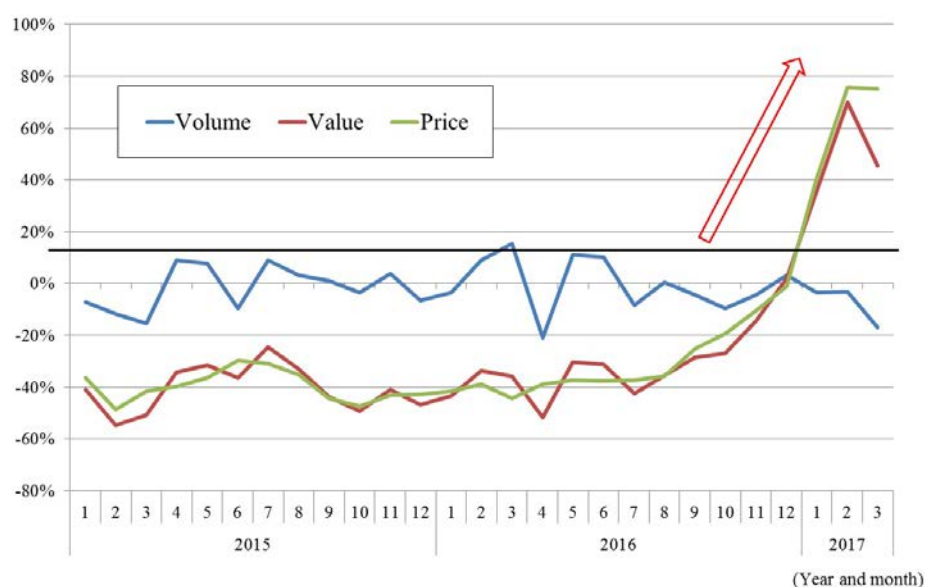
Contributions								
	Asia	China	AsiaNIE s	ASEAN	EU	US	Other	Worldwide
1. Foodstuff	0.02%	0.03%	-0.02%	0.01%	0.01%	0.00%	0.02%	0.05%
2. Raw materials	0.31%	0.17%	0.10%	0.04%	0.00%	0.00%	-0.01%	0.30%
3. Mineral fuels	0.26%	0.04%	0.12%	0.17%	0.02%	0.04%	0.15%	0.46%
4. Chemical products	1.12%	0.47%	0.48%	0.17%	0.02%	-0.02%	-0.02%	1.11%
5. Products by material	0.73%	0.10%	0.20%	0.36%	-0.05%	0.01%	-0.03%	0.66%
6. General machinery	2.00%	0.70%	1.14%	0.10%	0.16%	0.12%	0.12%	2.39%
7. Electrical equipment	1.32%	0.50%	0.60%	0.29%	0.01%	-0.03%	0.05%	1.36%
8. Transportation equipment	0.43%	0.27%	0.12%	0.01%	-0.16%	-0.21%	0.04%	0.09%
9. Others	1.30%	0.43%	0.74%	0.60%	-0.01%	-0.06%	0.85%	2.08%
Total	7.49%	2.70%	3.48%	1.75%	-0.01%	-0.14%	1.17%	8.51%

Note 1: These growth rates are year-on-year rates.

2. Singapore is a member country of both the Asian NIEs and the ASEAN.

Source: "Trade Statistics of Japan" (Ministry of Finance)

Figure II-2-1-1-13 Changes in growth rates of import value, prices, and volume of crude and raw oil



Notes:

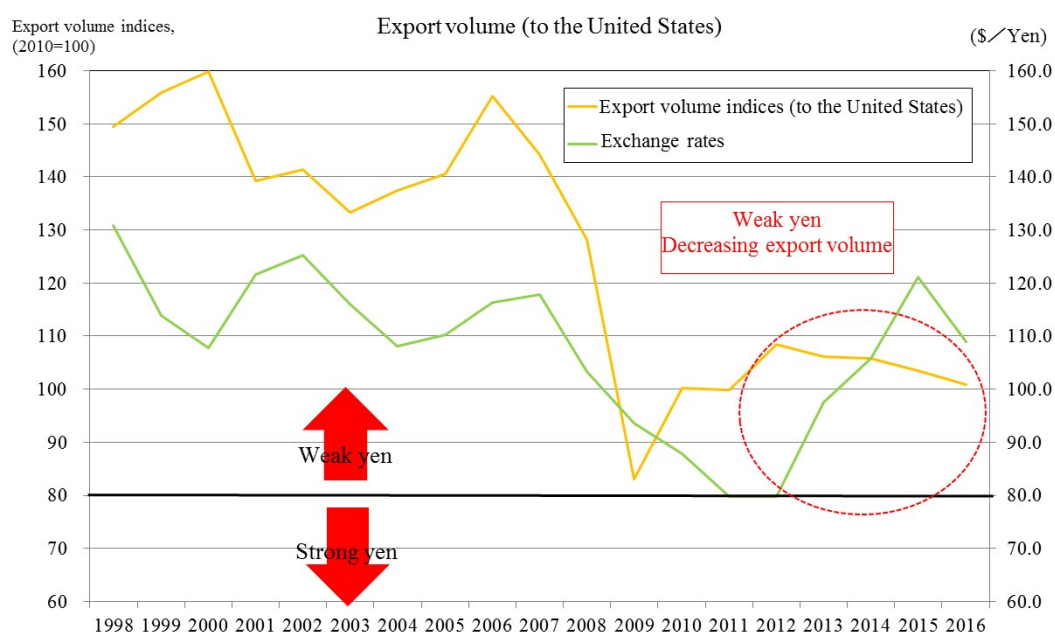
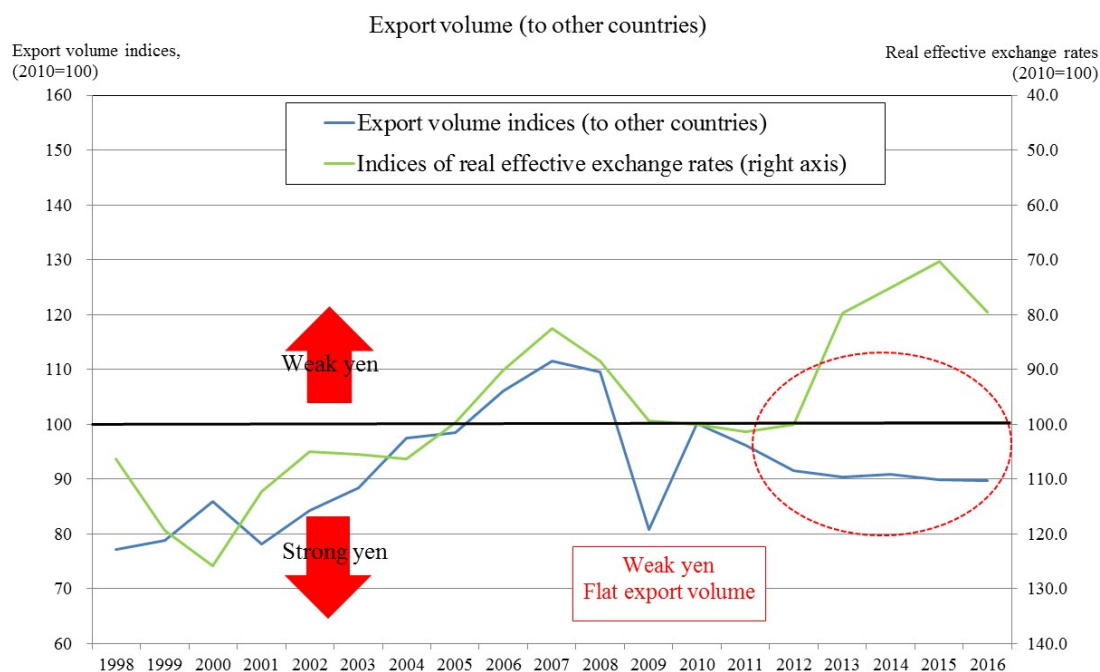
1. These growth rates are the same month of the previous year.

2. The growth rates of the prices are the calculation results by setting the quotient of division: price ÷ volume as the prices.

Source: "Trade Statistics of Japan" (Ministry of Finance)

Meanwhile, against the backdrop of structural changes such as Japanese companies' shift to production abroad and a change in their price-setting behavior, the volume of exports to the rest of the world has stayed almost flat during the phase of significant yen depreciation since 2012, while the volume of exports to the United States has declined. As indicated by this, in recent years, the impact of exchange rates on the volume of exports has become almost negligible (Figure II-2-1-1-14).

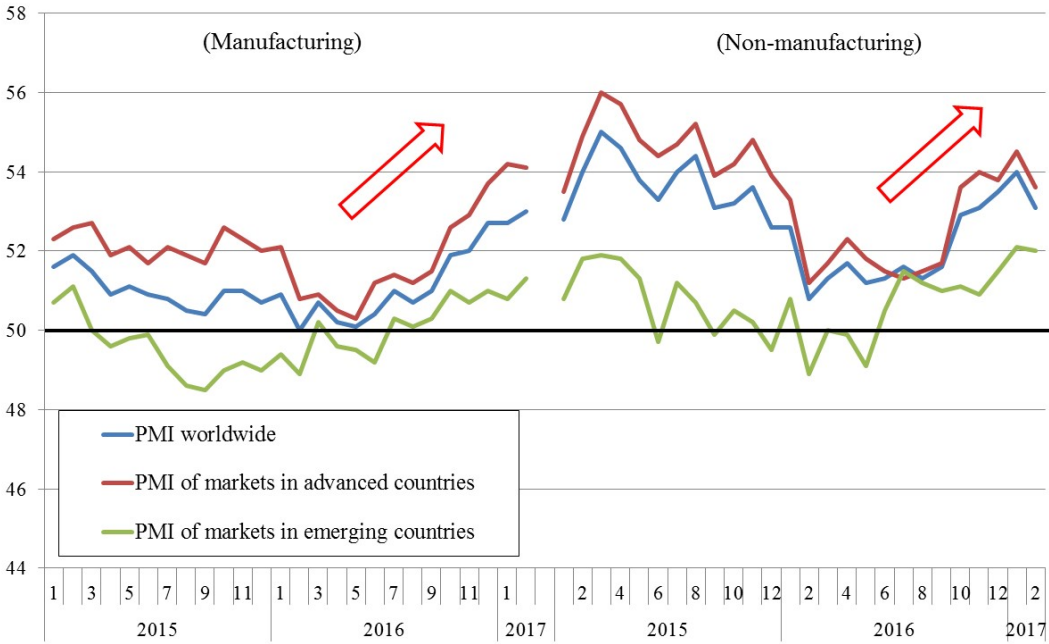
Figure II-2-1-1-14 Relationships between exchange and export volume



Source: MOF based on the data from CAO and the Bank of Japan.

In addition, the global PMI, a leading economic indicator, has stayed far above 50²⁴⁸ for both of the manufacturing and non-manufacturing industries since the latter half of 2016. In 2017, Japan’s exports, including those to advanced countries, have expanded, and the value of overall trade is expected to grow compared with 2016 (Figure II-2-1-15).

Figure II-2-2-1-15 Changes in PMI by region (manufacturing and non-manufacturing industries)



Source: Thomson Reuters.

²⁴⁸ The boom-bust dividing line is 50, with a value higher than this indicating economic growth and a lower value indicating recession. (Source: The iFinance financial information site).